**Review of the Internal Revenue
Service's Effectiveness in the
Monitoring and Reporting of
Year 2000 Funds**

January 1999

Reference No: 092204

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

January 28, 1999

MEMORANDUM FOR COMMISSIONER ROSSOTTI

FROM: Lawrence W. Rogers /s/ Larry Rogers
                          Acting Treasury Inspector General for Tax Administration

SUBJECT: Final Audit Report – Review of the Internal Revenue Service's
                 Effectiveness in the Monitoring and Reporting of Year 2000
                 Funds

This report presents the results of our review of the Internal Revenue Service's effectiveness in monitoring and reporting Year 2000 (Y2K) funds. We conducted our review in the Century Date Change (CDC) Budget Office to evaluate its process for monitoring and reporting Y2K funds.

Overall, the Service has effectively accounted for Y2K funds. However, the CDC Budget Office is not being informed of all decreases in funding requirements and time reported for Y2K efforts is not always complete, accurate or properly classified. To address these issues, we recommended improvements in monitoring the current status of Y2K funds availability and placing greater emphasis on the importance of recording all employee time charges for Y2K efforts.

The Director, Office of Information Resources Management agreed with the facts cited in the report and is taking appropriate corrective actions. Management's response to the findings has been incorporated into the report where appropriate. In addition, the complete text of their response is presented as an attachment to the report.

This report also includes a summary of an audit memorandum issued on June 9, 1998. The memorandum recommended that: 1) the information in the Quarterly Congressional Report comply with the requirements of the Conference Report that accompanied the legislation, and 2) the CDC Project Office address the concerns of non-Information Systems offices not recording employee Y2K time charges. Management responded to the memorandum by revising the form and content of the Congressional Report and ensuring effective coordination with those offices identified as not recording Y2K time charges. The audit memorandum and management's response are also included as attachments to this report.

Copies of this report are also being sent to Service managers who are affected by the report recommendations. Please call me at (202) 622-6500 if you have any questions, or your staff may contact Maurice S. Moody, Acting Assistant Inspector General for Audit at (202) 622-8500.

Table of Contents

Executive Summary

The Century Date Change (CDC) Project Office established a Budget Office to obtain, distribute and manage Year 2000 (Y2K) appropriated funds. The Office's responsibilities include managing Information Systems (IS) and non-IS funds identified for the CDC project and tracking budgetary information for the CDC Project Office, Internal Revenue Service (IRS) executives, and other internal and external stakeholders. The CDC Budget Office is also responsible for monitoring and reporting the availability and use of Congressionally mandated funds; unobligated funds transferred from expired IRS accounts; and, supplemental full time equivalents (FTE) from within the IRS's operational budget.

The overall objective of our audit was to determine whether the Service was effectively budgeting and accounting for all Y2K conversion efforts.

Results

Overall, the Service has been effective in accounting for Y2K funds. However, more attention is needed in the identification of decreased funding requirements and the recording of payroll expenditures related to Y2K efforts. While the CDC Budget Office uses a Working Budget report and Bi-Weekly Budget meetings to monitor the availability of budgeted Y2K funds and assess additional budget needs, management must become more proactive in identifying unused funds. In addition, management needs to ensure that complete and accurate information is recorded and reported for IS FTEs expended on Y2K efforts.

The CDC Working Budget Does Not Reflect the Most Current Year 2000 Needs

The CDC Budget Office is not being informed of all decreases in funding requirements resulting from procurement activities, which increase the availability of funds to be allocated to other Y2K projects. Though the identified funding decreases represented minimal amounts, this ineffective process creates the potential that large amounts of available funds will not be identified. If available funds are not identified, the CDC Budget Office may unnecessarily request supplemental funds from the Congress or request that funds be reprogrammed from other areas. This could delay the initiation of essential Y2K projects.

Information Systems' Full Time Equivalents are Not Being Accurately or Completely Monitored and Reported

Information Systems' employees are expending time on Y2K efforts but not always recording their time using the Y2K Project Cost Accounting Subsystem (PCAS) codes.

Further, time charges to the Y2K PCAS codes are not complete, accurate or properly classified. Additionally, time may not be accurately reported for work performed on non-Y2K projects that have Y2K implications. Without complete and accurate information, the Service cannot monitor FTEs expended on Y2K efforts or justify requests for additional funding.

Summary of Memorandum Issued During the Review

In addition to the issues identified in this report, we issued an Audit Memorandum on June 9, 1998, to advise management of needed improvements in the Service's monitoring and reporting of Y2K funds. The memorandum is included as Attachment III to this report. Specifically, the Quarterly Congressional Report on IRS's Year 2000 conversion program was not comprehensive or consistent and did not reflect information on the expenditure of funds as required by the Conference Report. The Conference Report that accompanies the appropriation legislation required the reporting of expenditures related to CDC efforts. The Conference Report does not establish mandated activities; however, following its requirements is advisable for sound financial management. Additionally, we noted that several non-Information Systems offices, contributing to the Y2K effort, were not reporting their time using the Y2K PCAS codes.

Management responded positively to these issues. The June 1998 Quarterly Report was modified to incorporate our recommendations and management indicated that steps would be taken to ensure that non-IS CDC work is accurately recorded. Management's response is included as Attachment IV to this report.

Summary of Recommendations

To improve procedures for monitoring available funds and for reporting accurate and complete payroll expenses related to Year 2000 conversion costs, we recommend that Information Systems management:

- Monitor Y2K funds past the commitment level to ensure available funds can be identified for Y2K project needs.

- Ensure that employees are recording their time to the appropriate PCAS codes and that time charges are complete and accurate.

In addition, our June 9, 1998, memorandum recommended that the information in the Quarterly Congressional Report comply with the requirements of the Conference Report and that the CDC project office address the concerns of those offices not charging Y2K efforts to the Y2K PCAS codes.

Management Response: Management agreed with the facts cited in the report and is taking the appropriate corrective actions. Portions of the management response related to each recommendation are included in the report.

Objectives and Scope

This audit was initiated as part of the Annual Audit Plan emphasis on century date change issues. The overall objective of our audit was to aid Service management in ensuring the effectiveness of budgeting and accounting for Y2K conversion efforts.

We conducted this audit at the National Office from March through August 1998. Audit work was performed in accordance with generally accepted government auditing standards. Attachment I contains the detailed objectives and scope of our review. A listing of major contributors to the report is shown in Attachment II.

During the review, we issued an audit memorandum communicating several issues. This audit report presents both a summary of the memorandum and a presentation of audit results not previously reported. A copy of the memorandum is included in this report as Attachment III and management's response to the memorandum is presented as Attachment IV.

Background

The IRS has determined that the majority of its computer systems are, or soon will be, at risk because of their potential inability to accurately process date information at the turn of the century. This problem is extremely critical to the Service, as many of its tax processing and collection functions are date driven. Additionally, numerous other Service operations, including law enforcement, personnel, accounting and procurement are also highly date driven.

Public Law 105-61 provided for the Service's 1998 appropriations and included funding for CDC efforts. An associated Conference Report contained the requirements for the availability of CDC funds. The CDC Budget Office, within the Information Systems function, is responsible for monitoring and reporting the

availability and use of $170,000,000 in Congressionally mandated Y2K funds; $50,000,000 of unobligated funds transferred from expired IRS accounts for fiscal year 1998; and an additional $20,000,000 identified for FTEs (full time equivalents) from within IRS's operational budget.

The Conference Report, provides guidance and cites requirements that are designed to ensure adequate financial management of the Y2K funds. Not following the requirements of the Conference Report could lead to misunderstandings while communicating with or reporting to Congress.

As part of the Conference Report, Congress directed the Service to provide quarterly reports tracking its progress in meeting the CDC strategy. One of the Conference Report requirements was that the reports include the expenditure of funds.

Results

More attention is needed in the identification of decreased funding requirements and the recording of payroll expenditures related to Y2K efforts.

Overall the Service has been effective in accounting for Y2K funds. However, more attention is needed in the identification of decreased funding requirements and the recording of payroll expenditures related to Y2K efforts. The CDC Budget Office uses a Working Budget report and Bi-Weekly Budget meetings to monitor the availability of budgeted Y2K funds and assess additional budget needs. However, management must become more proactive in identifying unused funds to ensure that no Y2K projects are delayed due to a lack of awareness of available funds. In addition, in order to accurately monitor FTEs expended on Y2K efforts and to determine future budget needs, management needs to ensure that complete and accurate information is recorded and reported.

The CDC Working Budget Does Not Reflect the Most Current Year 2000 Needs

The CDC Budget Office, which monitors fund availability, is not always being informed when requested funds are no longer needed.

The CDC Budget Office tracks and monitors CDC project requests and subsequent approvals for the use of available funds through the Budget System of Records (BSR). The Working Budget, generated from the BSR, is a constantly changing document that shows the current status of funds availability and use. Initial Budget Item Submissions (BIS) for the fiscal year are usually rough estimates of the requestor's needs; therefore, throughout the fiscal year, the CDC Budget Office solicits updated cost estimates. Through these updates the CDC Budget Office attempts to have the Working Budget reflect the most current Y2K funding needs. However, we determined that not all information on available funds is being communicated to the CDC Budget Office.

Two instances were identified in which the CDC Budget Office was not informed of the decrease in funding required for a BIS.

Our review of 18 approved BIS's showed that, in two instances, the amount of the BIS exceeded the amount of funds actually used and the CDC Budget Office was not informed that the funding requirements changed. The changes in funding requirements were due to a contract being awarded for less than expected and the invoiced amount of equipment purchased being less than the amount requested.

In addition, the CDC Budget Office uses the "FY 1998 Requisitions Report" generated by the Automated Financial System (AFS) to perform a reconciliation of the amounts recorded in the BSR to AFS. We determined that the reconciliation of the BSR was successful in identifying recording discrepancies; however, the reconciliation is performed only to the commitment level without regard to subsequent obligations, which causes the reconciliation to be incomplete.

Funds associated with three closed commitments were reclassified as available; however, the BSR still reflected the initial commitment amounts.

We also reviewed seven requisitions with closed commitments from the "FY 1998 Requisitions Report" and compared them to the information recorded on the BSR. As a result, we identified three commitments that were correctly closed on AFS with unobligated amounts remaining; however, the BSR still reflected the initial commitment amounts.

The identified funding decreases represented minimal amounts. However, this ineffective monitoring process creates the potential that large amounts of available funds will not be identified for use on other Y2K projects.

Through our discussions with partner organizations, we also determined that some offices may not know the status of their fund utilization, since they do not actively monitor their costs. The points of contact, for 6 of 18 BIS's reviewed, indicated that they monitored costs using either a spreadsheet or database. Three contacts indicated that they only monitor the obligation internally and the invoices are tracked by Procurement. Two contacts indicated that they do not monitor fund status, rather, Procurement was responsible for tracking the funds. The remaining contacts either had not incurred costs at the time of our discussions, or indicated that they informally monitor costs; however, they did not have any spreadsheets or databases for this purpose. Since some offices do not monitor their costs, they may not be aware of funds availability and, therefore, are not able to inform the CDC Budget Office when funds become available.

The CDC Budget Office may not be informed of fund availability since some partner offices do not track/monitor their costs.

Y2K projects could be delayed, if the CDC Budget Office is not aware of available funds.

The CDC Budget Office is not able to maintain the current status of Y2K fund availability when field and customer offices do not inform them of changes in funding requirements. Further, since the CDC Budget Office only monitors funds to the commitment level, unless informed, they will not be aware of the funds that become available. If available funds are not identified, the CDC Budget Office may unnecessarily request funds from Congress or request that funds be reprogrammed from other areas. This could delay the initiation of essential Y2K projects.

Recommendations:

1. The CDC Budget Office needs to develop a means to monitor the status of funds past the commitment level to ensure that unused previously committed funds are used for Y2K project needs. This could be achieved by the CDC Budget Office reconciling to obligation and expenditure data generated from AFS.

Management Response: CDC Project Office management is working with Procurement to obtain Record Tracking System (RTS) reports which will contain information regarding the processing status of Y2K requisitions up through the contract award step, including what becomes the AFS obligation amount. These reports will be produced weekly and allow for much more frequent and timely reconciliations with the CDC Working Budget.

2. The BIS points of contact need to develop a way to monitor the obligation and expenditure of funds to ensure the CDC Budget Office is informed timely of all funding changes.

Management Response: CDC Project Office management believes that obtaining information directly from RTS/AFS to monitor the changes in obligations is most efficient and more timely than tasking the BIS point of contact/initiator. Therefore, management will rely on the corrective action taken for recommendation number one.

Information Systems' Full Time Equivalents are not being Accurately or Completely Monitored and Reported

The Service developed the Project Cost Accounting Subsystem (PCAS) to record subproject allocations and capture costs pertaining to IRS activities. Y2K resource partners are responsible for ensuring that costs are being recorded in the accounting system completely and

accurately, and for continually evaluating the resources allotted for their projects. For fiscal year 1998, four PCAS codes were established to assist the Service in monitoring Y2K costs based on Congressional reporting categories.

We reviewed AFS reports showing National Office Information Systems' employee time charges to the Y2K PCAS codes. Our analyses showed that employees' time charges to the Y2K PCAS codes are not complete, accurate or properly classified.

Information Systems employees are expending time on Y2K efforts but not reporting the time using the Y2K PCAS codes.

Time reported to the Y2K PCAS codes is not complete. We reviewed the time charges of 206 employees who were identified as working on Y2K efforts. Our analysis of AFS reports showed the following:

- 38 (18%) employees did not appear on the reports, and

- 30 (15%) employees had 10% or less of their time charged to Y2K PCAS codes.

Time charged to the Y2K PCAS codes does not accurately reflect the actual time expended on Y2K efforts.

Time reported to the Y2K PCAS codes is not accurate. From a separate sample, we analyzed the responses of 47 (51 confirmations sent) employees we contacted to confirm the time charges that appeared on the AFS payroll reports. Our analysis showed the following:

- 14 (30%) had time charges on the AFS reports that differed from their estimates of time spent by more than 30%, and

12 (26%) did not show any time charges on the AFS reports for dates they specified as working on Y2K activities.

Time may not be accurately reported for work performed on non-Y2K projects that have Y2K implications.

Also, some employees commented that they worked on projects that are not specifically Y2K projects, but have aspects that relate to Y2K efforts. For example, in 4 (9%) responses, employees stated that although the project they worked on was not a Y2K effort, their work had Y2K implications and they did not accurately allocate their time to account for their Y2K activities.

Time is not charged to the appropriate Y2K PCAS codes.

Time reported to the Y2K PCAS codes is not properly classified. In 13 (28%) responses, employees stated they performed work related to Certification efforts. However, all of their time was reported under the Conversion & Testing/Telecommunications PCAS code.

Large entries are recorded to adjust employee time charges.

During our assessment, we also identified that significant time adjustments (160 hours or more, either added or removed) were made for 38 employees represented in our samples. In most instances, we could not determine whether a corresponding adjustment was made to another PCAS code to offset the adjustments. This need and frequency for adjusting recorded payroll entries further suggests that employees' time expended on Y2K efforts is not being accurately or completely recorded.

As a result of our June 9, 1998, memorandum, the CDC Project Office is re-instituting its efforts to identify and monitor Y2K time charges throughout the IRS. As part of this effort, the CDC Project Office holds weekly meetings with field and customer partners to identify underreporting. However, this process will only serve to identify discrepancies after the fact and should only be relied upon as a compensating control to ensure that accurate and complete time charges are being recorded. By not recording all Y2K conversion expenditures, the Service is unable to monitor and report accurate cost figures for the Y2K conversion efforts.

Recommendation:

3. Information Systems should emphasize the importance of recording time to the correct PCAS codes and develop procedures to ensure that employees are charging their time accurately, completely and to the appropriate PCAS codes.

Management Response: CDC Project Office is in the process of expanding its reports to capture and track reported verses anticipated FTE use, which will provide the opportunity for their partners to correct their

reporting habits up front. Management has reviewed the expanded reports process and has determined that it is a reasonable attempt to ensure accurate time reporting, and will continue to apply this approach throughout Fiscal Year 1999.

Summary of Memorandum Issued During the Review

In addition to the issues identified in this report, we issued an Audit Memorandum on June 9, 1998, to advise management of needed improvements in the Service's monitoring and reporting of Y2K funds. The memorandum is included as Attachment III to this report. Management responded positively to the issues reported in the memorandum and subsequent management actions are being taken to implement our recommendations. We identified the following areas where the Service could improve the monitoring and reporting of Y2K conversion efforts.

Cost information presented in the Quarterly Congressional Report on IRS' Year 2000 conversion program was not comprehensive and consistent. The Quarterly Congressional Report on IRS's Year 2000 conversion program does not reflect information on expenditure of funds as required by the Conference Report. Also, the columns included in the report do not contain information consistent with their respective titles.

Without a coordinated, comprehensive and consistent disclosure of information in the Quarterly Congressional Report, the Service cannot ensure an effective accounting and control of appropriated funds or meet Conference Report requirements.

As a result of this issue, we recommended that the Quarterly Congressional Report be adjusted to comply with the Conference Report reporting requirements; that comprehensive and consistent information be presented to distinguish between budget approval, commitment, obligation and expenditure; and, that effective

coordination exists among all affected parties to ensure the reliability of the reported information. In their response, management stated they have revised the form and content of the Congressional Report and taken action to ensure effective coordination.

Full time equivalents of non-Information Systems organizations used for Year 2000 conversion efforts are not always being charged to the Year 2000 project cost accounting codes. The Service has issued numerous memorandums emphasizing the importance of reporting time to the correct PCAS code. However, several non-Information System offices, contributing to the Y2K effort, were identified as not charging time to the Y2K PCAS code.

By not capturing all Y2K conversion expenditures, the Service will be unable to maintain accurate cost figures for the Y2K conversion efforts.

As a result of this issue, we recommended that the CDC Project Office directly interact with the offices not charging Y2K efforts to the Y2K PCAS codes. In response, the CDC Project Office is re-instituting its efforts to identify and monitor offices throughout the IRS to ensure that they are reporting CDC work appropriately. In addition, the CDC Project Office uses the Weekly Progress Report and weekly meetings with field and customer partners to address and monitor underreporting.

Attachment I

Detailed Objectives, Scope and Methodology

The overall objective of this audit was to determine the effectiveness of the Service's budgeting and accounting for Y2K conversion efforts and that funds were adequately monitored and accurately reported. Specifically, we:

I. Determined if all relevant Y2K activities were taken into account for fiscal years 1998 and 1999 for budgeting purposes.

  A. Determined how Y2K budget needs were identified and whether sufficient funds were anticipated to be received.

  B. Determined if budgeted funds were allocated only to Y2K projects and if the allocation was based upon the critical need of the projects.

  C. Reviewed a judgmental sample of 18 Budget Item Submissions and determined how the cost estimates were developed.

II. Determined the CDC Budget Office's role in monitoring fiscal year 1998 funds (labor and non-labor) and the accuracy and usefulness of actual and projected expenditures reported to external oversight organizations.

  A. Determined the levels (i.e. commitment, obligation, expenditure) at which the CDC Budget Office monitors funds.

  B. Reviewed internal reports to determine how funds are monitored.

  C. Determined if reports, submitted to external oversight organizations, were consistent with recorded financial events and provided information that is valuable to those organizations.

III. Analyzed fiscal year 1998 Y2K full time equivalent (FTE) allotments and determined whether FTEs were being recorded and reported accurately.

  A. Interviewed CDC Budget Office and CFO personnel.

  B. Analyzed the CDC Budget Office reports used to track FTEs.

  C. Determined the accuracy and completeness of 253 employees' time charges to the Y2K PCAS codes. Names of 206 employees were obtained from BIS points of contact and compared to the AFS payroll reports. An additional sample of 51 employees was judgmentally selected from the AFS payroll reports and sent confirmations, of which 47 responses were received.

Major Contributors to this Report

Michael Phillips, Acting Director, Office of Audit Projects

Thomas Brunetto, Audit Manager

Andrew Harvey, Auditor

Jill Moore, Auditor

Annamarie Ugoletti, Auditor

Attachment III

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DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

June 9, 1998

**Response Date:
June 22, 1998**

MEMORANDUM FOR ACTING ASSOCIATE COMMISSIONER FOR
MODERNIZATION/CHIEF INFORMATION OFFICER
ACTING CHIEF FINANCIAL OFFICER

Scott E. Wilson

FROM: Scott E. Wilson
Acting Assistant Chief Inspector (Internal Audit)

SUBJECT: Budgeting and Accounting for Year 2000 Conversion Efforts
980044 - Memorandum #1

Internal Audit is performing an on-line review of the Service's budgeting and
accounting for Year 2000 (Y2K) conversion efforts. During our review, we
determined that the Service needs to report and monitor costs associated with Y2K
efforts more effectively. The audit work supporting this issue was conducted in
accordance with generally accepted Government auditing standards.

If you do not agree with the facts, conclusions, or recommendations presented in
this memorandum, please contact my office within five workdays. Otherwise, we
ask that the Chief Information Officer coordinate the response with the Chief
Financial Officer and provide a written response within 10 workdays of receiving
this memorandum. These issues and your responses will be included in our
forthcoming draft report. If you have any questions concerning this memorandum,
please contact me or Margaret Begg, Director, Office of Audit Projects, at (703)
235-4200.

Results

The Service needs to ensure that the Quarterly Congressional Reports contain information on expenditures and that Full Time Equivalents utilized for Y2K conversion efforts are accurately charged to the Y2K PCAS codes.

During our review of the budgeting and accounting for the Service's Year 2000 (Y2K) conversion efforts, we determined that the Service is not in compliance with the Congressional mandate requirement to report expenditures in the Quarterly Congressional Report. In addition, we also identified concerns with the charging of Full Time Equivalents (FTEs) to the Y2K Project Cost Accounting System (PCAS) codes.

The Century Date Change (CDC) Project Office's Budget Office is responsible for monitoring and reporting the availability and use of $170,000,000 in Congressionally mandated funds for fiscal year 1998 Y2K conversion efforts. The CDC Budget Office uses the Budget System of Records, an in-house system specifically designed to record and monitor the approval of the use of these funds. Further, an additional $20,000,000 in funds was identified for FTEs within the IRS's operational budget to accomplish Y2K efforts.

Cost Information Presented in the Quarterly Congressional Report on IRS's Year 2000 Conversion Program Needs to be Improved

The Quarterly Congressional Report on IRS's Year 2000 Conversion Program does not include information on expenditure of funds as required.

The information presented in the Quarterly Congressional Report on IRS's Year 2000 Conversion Program does not include all information required by Congress. Public Law 105-61 provided for the Service's 1998 appropriations and the detailed Congressional mandate contained the requirements for the availability of CDC funds. As part of the requirements, Congress directed the Service to provide quarterly reports tracking its progress in meeting the CDC strategy. One of the Congressional requirements was that the reports include the expenditure of funds. This requirement is not being met.

The Quarterly Congressional Report on IRS's Year 2000 Conversion Program, Section III – Year 2000 Conversion Costs, includes a chart entitled Year 2000 Project Budget Summary. Through discussions with CDC Budget Office personnel we determined that the "Project Office Approval of Commitments" column represents non-discretionary funds (contractor services, equipment and software) approved by the CDC Budget Office. These funds have not been committed by the financial plan manager, obligated through the procurement process or expended through the payment process. Further, the column "Automated Financial System Commitments/Obligations" represents a combination of committed and obligated non-discretionary funds with no reporting of expended non-discretionary funds. However, both columns include expended discretionary funds (FTEs, overtime, travel and training), including discretionary expenditures funded by the $20,000,000 from operational funds.

These inconsistencies in reporting and the non-compliance with the Congressionally mandated requirements are due to a lack of a coordinated effort by the Service to ensure full disclosure of the use of Y2K funds. Without a coordinated, comprehensive and consistent disclosure of information in the Quarterly Congressional Report showing approvals, commitments, obligations and expenditures, the Service can not assure an effective accounting and control of appropriated funds, nor meet Congressional requirements.

Recommendations

The Service should provide assurance that:

1. The information presented in the Quarterly Congressional Report complies with the requirements of the Congressional mandate to report expenditures.

2. Comprehensive and consistent information is presented to distinguish between budget approval, commitment, obligation and expenditure.

3. Effective coordination exists among the budget office, financial plan managers, functional areas, procurement and accounting to assure the reliability of the reported information.

Full Time Equivalents Utilized for Year 2000 Conversion Efforts are not Always Being Charged to the Year 2000 Project Cost Accounting Codes

To assess the accuracy of the FTE charges made to the Y2K PCAS codes, we held discussions with Service representatives from various offices. From our discussions, we identified three offices outside of Information Systems that contribute to the Y2K effort, but do not record time to the Y2K PCAS code. A February 14, 1997 memorandum from the Deputy Commissioner emphasized the importance of reporting time to the correct PCAS code due to the Service's requirement to report the Information Systems expenditures to Congress on a quarterly basis. A second memorandum was issued August 19, 1997 from the Director, Year 2000 Project Office requesting that TIMIS coordinators designate the Y2K PCAS code for all time expended in support of the Y2K project. A third memorandum was issued on April 20, 1998, from the Acting National Director for Budget. This memorandum stressed that, regardless of where employees are assigned organizationally they should charge their time to the Y2K PCAS code if they are working on a Y2K project.

Attempts to resolve the problem of offices not charging the Y2K PCAS code for time spent on Year 2000 efforts have not been successful.

The numerous memorandums issued to address the requirement of charging time to the Y2K PCAS code indicate that the Service is aware of the problem and is attempting to resolve the issue. However, these attempts have not been effective. Of the three offices identified as not using the Y2K PCAS code, two offices indicated

that their offices were already funded for fiscal year
1998 and they were using their own FTE allocations.
One of the two offices indicated that they were reluctant
to use the Y2K PCAS code because they feared they
would lose funding in the next fiscal year due to the
reduced costs charged to their own program. The third
office did not charge all Y2K efforts to the Y2K PCAS
code. This office indicated that they would look into
charging all Y2K efforts to the Y2K PCAS code.

By not capturing all Y2K conversion expenditures, the
Service will be unable to maintain accurate cost figures
for the Y2K conversion efforts. Since it appears that
memorandums have not resolved the problem, the
Service must take a different course of action.

Recommendation

The Chief Information Officer, with the assistance of the
Commissioner's office, should assure that:

4. Offices not charging Y2K conversion efforts to the
   Y2K PCAS code be contacted directly to ensure all
   of the offices' issues and concerns, related to
   charging the Y2K PCAS code, are addressed.

Attachment IV

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

REC___ ___

JUN 26 1998

JUN 3 0 1998
Chief Inspector

MEMORANDUM FOR CHIEF INSPECTOR

FROM: *for* Helen H. Bolton
               Acting Deputy Chief Information Officer for
               Information Resources Management IS:I

SUBJECT: Budgeting and Accounting for Year 2000 Conversion Efforts
               (URMEM June 9, 1998)

In your memorandum to us, you state that Internal Audit has determined that the
Service is not in compliance with the Congressionally mandated requirement to report
expenditures in the Quarterly Report to Congress on the IRS' Year 2000 Conversion
Program (CDC Report). Our objective has always been to comply with the mandate of
Congress in reporting Century Date Change expenditures. As mentioned in our June
18th discussion with your staff, we have worked extensively with the Appropriations
Subcommittee staffs of both houses and have developed a Quarterly Report to meet
Congressional reporting requirements. One of the conclusions drawn in the
development of our report to Congress was that when Congress asks us to report
"expenditures," they usually mean "obligations." Hence, the terms "obligations" and
"expenditures" are used interchangeably. However, we do agree that the CDC Report
can be improved and made more clear. Plans to do so are reflected in the attached.

In addition, your memorandum notes that full-time equivalents (FTE) used for Century
Date Change conversion efforts are not always being charged to the Century Date
Change project cost accounting codes. We are pleased that you are aware of our
continuing efforts to ensure that all utilization of Century Date Change resources is
charged to the Century Date Change project cost accounting codes. In fact, we see the
significant over-realization of Century Date Change FTE in FY 1998 as proof that our
many efforts to ensure comprehensive Century Date Change FTE reporting are
beginning to work. We will be re-instituting proactive tracking measures, however, as
referenced in the attached.

In light of the nature of the issues raised and our response(s), we hope that you will
re-examine the criticality of your findings. The proposed actions contained in the
attached response should enhance the Congressional reporting and Y2K cost
accounting procedures presently in place. These changes, along with our concern for
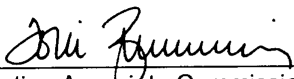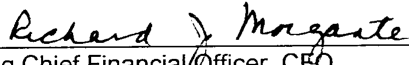
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continued oversight of capturing Y2K expenditures, should be reflected in the IA report. If for some reason, you are not in agreement with any of the corrective actions or if the corrective actions do not meet your requirements, please contact the project office directly.

Any questions regarding this memorandum may be directed to me on (202) 283-4060, or a member of your staff can contact Donna Downing on (202) 283-4159.

Attachment

CONCUR: _____   _6/30/98_
　　　　　Acting Associate Commissioner for Modernization/   Date
　　　　　Chief Information Officer IS

CONCUR: _____   _6/29/58_
　　　　　Acting Chief Financial Officer CFO   Date

Attachment

**Response to Internal Audit Memorandum
Budgeting and Accounting for Year 2000 Conversion Efforts 980044 - Memo #1**

Recommendation 1

The Service should provide assurance that:
The information presented in the Quarterly Congressional Report complies with the
requirements of the Congressional mandate to report expenditures.

Assessment of Cause

Congress directed the Service to provide quarterly reports tracking its progress in
meeting the CDC strategy. One of the Congressional requirements was that the
reports include the expenditure of funds. The Quarterly Status Report to Congress,
IRS Year 2000 Conversion Program (CDC Report) does not specifically address
"expenditures" of funds.

Corrective Actions for Recommendation 1

We agree that the CDC Report does not identify expenditures separately, and we
will, in future reports, divide the "AFS Commitments/Obligations" column
into two columns; one column specific to commitments and the other specific to
obligations including expenditures.

NOTE: The Quarterly Report to Congress on the Information Systems Appropriation
identifies obligations and expenditures for Century Date Change (this report is issued
by the CFO organization and is separate and apart from the CDC Report).

Implementation Date

Completed: _____   Proposed: July 31, 1998

Responsible Officials

Acting Associate Commissioner for Modernization/Chief Information Officer IS
Deputy Chief Information Officer for Systems Development IS:S

**Response to Internal Audit Memorandum
Budgeting and Accounting for Year 2000 Conversion Efforts 980044 - Memo #1**

Recommendation 2

The Service should provide assurance that:
Comprehensive and consistent information is presented to distinguish between budget
approval, commitment, obligation and expenditure.

Assessment of Cause

The Quarterly Congressional Report on IRS' Year 2000 Conversion Program,
Section III - Year 2000 Conversion costs, includes a chart entitled Year 2000
    Project
Budget Summary. Inconsistencies in terminology and descriptive language relating

to the information provided in the Summary are misleading.

Corrective Action for Recommendation 2

We recognize that some confusion exists in this area of the reports, and, in the
future, the CDC Report will provide different and more clearly defined information in
accordance with Internal Audit's recommendation. The descriptive language for all
columns will be re-written to accurately describe the nature and source of the data.

Implementation Date

Completed: _____   Proposed: <u>July 31, 1998</u>

Responsible Official

Acting Associate Commissioner for Modernization/Chief Information Officer IS
Deputy Chief Information Officer for Systems Development IS:S

**Response to Internal Audit Memorandum
Budgeting and Accounting for Year 2000 Conversion Efforts 980044 - Memo #1**

Recommendation 3

The Service should provide assurance that:
Effective coordination exists among the budget office, financial plan managers, functional areas, procurement and accounting to assure the reliability of the reported information.

Assessment of Cause

There appears to be a lack of a coordinated effort by the Service to ensure full disclosure of the use of Y2K funds. Without a coordinated comprehensive and consistent disclosure of information in the Quarterly Congressional Report showing approvals, commitments, obligations and expenditures, the Service can not assure an effective accounting and control of appropriated funds, nor meet Congressional requirements.

Corrective Action for Recommendation 3

The CDC Project Office will continue coordinating with the IS:I and the CFO Offices with renewed emphasis and rigor in report data, definitions and footnotes.

Implementation Date

Completed: Ongoing   Proposed: _____

Responsible Official

Acting Associate Commissioner for Modernization/Chief Information Officer IS
Deputy Chief Information Officer for Systems Development IS:S

Response to Internal Audit Memorandum
Budgeting and Accounting for Year 2000 Conversion Efforts 980044 - Memo #1

Recommendation 4

The Chief Information Officer, with the assistance of the Commissioner's office, should assure that:
Offices not charging Y2K conversion efforts to the Y2K PCAS code be contacted directly to ensure all of the offices' issues and concerns, related to charging the Y2K PCAS code, are addressed.

Assessment of Cause

The Service has issued numerous memoranda to address the requirement of charging time to the Y2K PCAS code. Internal Audit identified 3 offices outside of Information Systems that contribute to the Y2K effort, but for various reasons, do not record time to the Y2k PCAS code. Attempts to correct this problem via memorandum has not proved successful. By not capturing all Y2K conversion expenditures, the Service will be unable to maintain accurate cost figures for the Y2K conversion efforts. Since it appears that memoranda have not resolved the problem, the Service must take a different course of action.

Corrective Action for Recommendation 4

Based on Internal Audit's findings, the CDC Project Office is re-instituting its efforts to pro-actively identify and monitor offices throughout the IRS to ensure that they are reporting Century Date Change work appropriately and will contact those with apparent under-reporting. The CDC Project Office prepares a Weekly Progress Report and holds an associated meeting each Monday morning with our field and customer partners. Under-reporting will be noted in future Weekly Progress
    Reports
and monitored henceforth.

Implementation Date

Completed: _____   Proposed: <u>July 13, 1998</u>

Responsible Official

Acting Associate Commissioner for Modernization/Chief Information Officer IS
Deputy Chief Information Officer for Systems Development IS:S

Attachment V

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DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

MEMORANDUM FOR CHIEF INSPECTOR

FROM: Helen H. Bolton
                         Director, Office of Information Resources Management IS:IR

SUBJECT: Draft Internal Audit Report - Review of the Service's
                         Effectiveness in the Monitoring and Reporting of Year 2000
                         Funds

The Information Systems (IS) organization has reviewed the subject draft Internal Audit
Report and provides the attached management response.

If you have any questions, please call me on (202) 283-4060 or have a member of your
staff call Donna Downing on (202) 283-4159.

Attachment

cc: Assistant Chief Inspector (Internal Audit)
    Deputy Director, Office of Audit Projects

Response to Draft Internal Audit Report
Review of the Service's Effectiveness in the Monitoring and
Reporting of Year 2000 Funds

Recommendation 1

The Century Date Change (CDC) Budget Office needs to develop a means to monitor the status of funds past the commitment level to ensure that unused previously committed funds are utilized for Year 2000 (Y2k) project needs. This could be achieved by the CDC Budget Office reconciling to obligation and expenditure data generated from Automated Financial System (AFS).

Assessment of Cause

The CDC Working Budget Does Not Reflect the Most Current Year 2000 Needs

There are two aspects to this: (1) the difference between the CDC Working Budget and AFS obligations; and (2) the difference between the CDC Working Budget and the longer term actual expenditures (AFS expenditures) that come in over time on most Data Processing Services contracts. By definition, the Working Budget is a snapshot. It is intended to reflect the most current planned and approved requirements of Y2k partners and is continually updated based on partner changes and commitment documents as they pass through the CDC Project Office (PO) approval process on their way to becoming obligations.

Regarding number (1) above, only when the commitment is obligated in AFS is the true amount of the obligation known. It is often the case that award takes place at the commitment dollar amount, since prices are often surveyed in advance. The CDC PO currently conducts a quarterly reconciliation of our database using a report furnished by AFS at the end of each quarter, which allows us to adjust the Working Budget. For purchases/leases, the expenditure amount becomes the same as the obligated amount at the time of bill payment.

It should be noted that approaching the end of FY 1998, daily coordination with Acquisitions and Procurement assured that all Y2k requisitions were monitored through to the obligation stage. This coordination consisted of exchanges of reports and reconciliations with the Record Tracking System (RTS) Contract award/AFS obligation figures and daily adjustments to the Working Budget to reflect actual obligated amounts. This coordination effort enabled this office to reflect reductions in obligated amounts vs. the earlier committed amounts.

**Response to Draft Internal Audit Report
Review of the Service's Effectiveness in the Monitoring and
Reporting of Year 2000 Funds**

Assessment of Cause (continued)

As Internal Audit (IA) states, "identified funding decreases represented minimal amounts..." and this has consistently been our experience as well (from FY 1997 and throughout FY 1998). In any case, we would never let such differences affect our ability to fund needed Y2k work. In the absence of any indications that significant surpluses existed as a result of the above situation, we did not put the emphasis here but in acquiring additional funds to ensure full funding of all Y2k needs (which we did successfully, when needed).

The CDC PO recognizes that our current reconciliation process is not optimal and not as automated as we would like. Ongoing coordination with Procurement and RTS personnel will provide us with more timely reconciliation data from RTS/AFS through the reporting partnership we are forging. We are also taking action to automate a reconciliation of our database with AFS. This IA report will add further impetus to our requests to obtain the necessary data exports to accomplish this automated reconciliation. The CDC PO believes that using RTS and AFS data to monitor this is more efficient than tasking the Budget Item Submission (BIS) point of contact/initiator.

Regarding (2) above, for those contract vehicles where billing occurs well after obligation, commitments may make it appear that money is languishing unused but it is "ear-marked" by the contracting officer for billings which will come in the future. In many cases, excess funds cannot be known until years after the closing of the fiscal year.

Excess funds can arise in a number of ways. One scenario is when Procurement has a term type order under TIPSS that provides for work requests. Contract Administrators and COTRs are charged with the responsibility to watch these orders carefully. If at any time the number of hours that is anticipated will be ordered under work requests over the full term of the task order, will not approach the full number of hours contained and funded in the task orders, a modification is initiated to reduce the overall required number of hours accordingly. This would create excess funds and would show up in the AFS reconciliation process, referenced above.

Another way to recover money is when a cost reimbursement completion form task order (under TIPSS, for instance) finishes at a cost below the amount originally

Response to Draft Internal Audit Report
Review of the Service's Effectiveness in the Monitoring and
Reporting of Year 2000 Funds

obligated. The final level of excess money will not be known until the task order is audited and closed out, often years after performance has concluded. If there is an excess of money, an earlier de-obligation can and should still take place, while still reserving enough of the excess on the task order to protect us in case the final audit results require that money. The Contracting Officer has the responsibility to process such a de-obligation. (The latter situation should show up through an AFS reconciliation as well.)

Much of the Y2k contracted work (especially at the end of the year) was fixed price. When a fixed price order is awarded, the contractor has entitlement to the full obligated amount, and thus, there is no potential excess amount to be recovered, despite what the contractor's expense level may ultimately have been.

Corrective Action for Recommendation 1

With Procurement's help, we are working to obtain RTS reports which will contain information regarding the processing status of Y2k requisitions up through the contract award step (including what becomes the AFS obligation amount). These reports will be produced weekly and allow for much more frequent and timely reconciliations with the CDC Working Budget (and we will continue the quarterly AFS reconciliation as well). These expanded reports will be in place no later than April 1, 1999. Although we hope to be able to automate this process, via AFS downloads, at some point in the future, we do not yet have the necessary agreement from all the parties involved to commit to such at this time.

Implementation Date for Corrective Action 1

Completed: Proposed: 04/01/1999
                                                              Expanded RTS reports will be provided on
                                                              a weekly basis.

Responsible Official

Chief Information Officer IS
Deputy Chief Information Officer (Systems) IS
Director, Year 2000 Project IS:CD

Recommendation 2

The BIS points of contact need to develop a way to monitor the obligation and

Response to Draft Internal Audit Report
Review of the Service's Effectiveness in the Monitoring and
Reporting of Year 2000 Funds

expenditure of funds to ensure the CDC Budget Office is informed of all funding changes in a timely manner.

Assessment of Cause

The CDC Budget Office, which monitors funds availability, is not always being informed when requested funds are no longer needed.

Corrective Action for Recommendation 2

No corrective action.

For reasons stated in the Assessment of Cause for Recommendation #1, the CDC PO believes that using RTS and AFS data to monitor the changes in obligations is more efficient than tasking the BIS point of contact/initiator.

Clearly, Partners should monitor their obligation and expenditure of funds, in accordance with Service guidelines. However, the CDC PO believes it is most efficient, and more timely, for them to obtain such information directly from RTS/AFS. Therefore, we plan to rely on the processes described in Assessment of Cause for Recommendation #1.

Implementation Date for Corrective Action 2

Completed:_NA_   Proposed:_NA_

Responsible Official for Corrective Action 2

Chief Information Officer IS
Deputy Chief Information Officer for Systems Development IS
Director, Year 2000 Project IS:CD

Recommendation 3

Information Systems should emphasize the importance of recording time to the Project Cost Accounting Subsystem (PCAS) Codes and develop procedures to ensure that employees are charging their time accurately, completely and to the appropriate PCAS codes.

**Response to Draft Internal Audit Report
Review of the Service's Effectiveness in the Monitoring and
Reporting of Year 2000 Funds**

Assessment of Cause

Staff time expended on Y2k efforts has not always been accurately charged to Y2k PCAS codes.

Corrective Action for Recommendation 3

We don't disagree with the specific findings, however, we want to clarify that the CDC Project Office is emphasizing the importance of accurate PCAS time reporting. The CDC PO writes memos, coaches TIMIS reporters, issues reports, and reviews them weekly in meetings with our partners. We continually remind them of this issue. We are in the process of expanding our reports to capture and track reported-vs-anticipated FTE utilization. This year we are starting our reporting emphasis and tracking earlier in the fiscal year. This will provide feedback and the opportunity for our partners to correct their reporting habits up front.

We have reviewed our expanded reports process and have determined that it is a reasonable attempt to ensure accurate time reporting, and will continue to apply this approach throughout FY 1999.

In addition to the above, we are aware that there is a systemic problem with certain customer and field entities reporting time in FY 1999. The TIMIS system prevents them from reporting accurately and we are aggressively working with IS, Finance and CFO to resolve this situation.

Implementation Date for Corrective Action 3

Completed: Proposed: 01/01/1999
                                              The CDC PO's expanded approach to time
                                              reporting will be completely in place.

Responsible Official for Corrective Action 3

Chief Information Officer IS
Deputy Chief Information Officer for Systems Development IS
Director, Year 2000 Project IS:CD

Attachment VI

Report Distribution List

Deputy Commissioner for Operations C:DO
Deputy Commissioner for Modernization C:DM
Chief Information Officer IS
Deputy Chief Information Officer, Operations IS
Deputy Chief Information Officer, Systems Development IS
Director, Year 2000 Project IS:CD
Chief Operations Officer OP
Assistant Commissioner (Criminal Investigation) OP:CI
Chief Management and Finance M
Chief Financial Officer M:CFO
Audit Liaisons:
     Office of IS Program Oversight IS:IR:O
     Century Date Change Project Office IS:CD
     Deputy CIO Operations IS
     Deputy CIO Systems Development IS
     Chief Operations Officer OP
     AC (Criminal Investigation) OP:CI
     Chief Management and Finance M
     Chief Financial Officer M:CFO